U.S. Representative Danny K. Davis Leads Letter to Treasury and Federal Reserve Calling for Protections for Students in Treasury-Fed Plan

Washington, D.C.- Congressman Danny K. Davis (D-IL) last week led a request by 18 Members of Congress to Secretary of the Treasury Henry Paulson and Federal Reserve Chairman Ben Bernanke to ensure protections for students in any plan to use federal dollars to support for-profit lenders of non-federal student loans. As a Member of the Committee on Education and Labor, Davis is active in education policy. Congressman Davis and his colleagues from the House of Representatives made clear that they strongly support helping low-income students access higer education during this economic crisis. The policymakers want to make certain that new Term Asset-Backed Securities Loan Facility program administered jointly by the Treasury and the Federal Reserve does not simply line the pockets of for-profit lenders.

Washington, D.C.- Congressman Danny K. Davis (D-IL) last week led a request by 18 Members of Congress to Secretary of the Treasury Henry Paulson and Federal Reserve Chairman Ben Bernanke to ensure protections for students in any plan to use federal dollars to support for-profit lenders of non-federal student loans. As a Member of the Committee on Education and Labor, Davis is active in education policy. Congressman Davis and his colleagues from the House of Representatives made clear that they strongly support helping low-income students access higer education during this economic crisis. The policymakers want to make certain that new Term Asset-Backed Securities Loan Facility program administered jointly by the Treasury and the Federal Reserve does not simply line the pockets of for-profit lenders.

Davis and his colleagues said, "We have serious concerns about using taxpayer money to subsidize for-profit lenders of non-federal student loans. A number of higher education groups representing students, consumers, and colleges share our concerns. The Treasury-Fed plan seems to equate credit card, auto, and student loans. However, these debts are not equal. Private student loan lenders enjoy federal protections from bankruptcy that other consumer creditors do not. Specifically, unlike other types of consumer debt, private student loans are protected from discharge during bankruptcy except under extreme circumstances. Thus, an individual who accumulates thousands of dollars in debt for purchases of cars or luxury goods can obtain relief via bankruptcy; however, a teacher with private student loans cannot."

The letter asked Treasury and Federal Reserve officials to construct its student loan plan to mitigate against adverse consequences for private student loan borrowers. Specifically, should taxpayer money be used to support private student lenders of non-federal loans, the policymakers asked that the plan require consumer protections similar to

those afforded to federal student loans.
These protections include fixed interest rates, income-contingent and income-based repayment options, and debt discharge in the case of disability or death. Davis said, "Federal student loans have consumer protections; private student loans subsidized by the Treasury-Fed plan should have such protections as well."
In addition, the letter recommended that the new program institute steps to assess the underwriting standards of lenders who seek federal relief to determine if the lenders extended credit to particularly vulnerable consumers and whether credit was extended with onerous terms or conditions.

Davis and his colleagues also wrote to Barney Frank, Chairman of the House of Representatives Committee on Financial Services to request a hearing on the potential Treasury-Fed intervention. That letter stated, "A hearing promises to bring to light important facets of the student loan industry that Treasury and Federal Reserve officials should consider prior to taking action." Davis and his colleagues are hopeful that members of the Committee on Financial Services will seek clarification about the program during the oversight hearing scheduled for Wednesday, December 10, 2008.

Text of the letters appears below:

December 4, 2008

The Honorable Ben S. Bernanke

Chairman

Federal Reserve System

20th Street
and Constitution Avenue, NW

Washington,
DC 20551

Dear Chairman Bernanke:

As Members of Congress who are active in education policy, we write to respectfully request clarification of the recent Term Asset-Backed Securities Loan Facility program that would allow the Department of Treasury and the Federal Reserve to fund non-federal student loans. We strongly support ensuring that students have the money they need to attend institutions of higher education. However, we must make certain that any such plan aids students and does not simply line the pockets of for-profit lenders.

Most students and families use federal loans to pay for college. Thanks to recent actions by Congress and the Department of Education, federal student loans are currently readily available. However, certain groups of students require private student loans to attend school, such as students who need to borrow more than is available federally, students who attend schools that do not participate in the federal loan program, and international students. The Project on Student Debt estimates that only about 8% of undergraduates used private loans last year. Unlike federal student loans, private student loans typically lack any form of consumer protection (e.g., fixed interest rates, income-contingent and income-based repayment options, or debt discharge in the case of disability or death). For these reasons, lenders and financial aid experts generally agree that students should exhaust federal financial aid prior to using private loans.

We have serious concerns about using taxpayer money to subsidize for-profit lenders of non-federal student loans. A number of higher education groups representing students, consumers, and colleges share our concerns. The Treasury-Fed plan seems to equate credit card, auto, and student loans. However, these debts are not equal. Private student loan lenders enjoy federal protections from bankruptcy that other consumer creditors do not. Specifically, unlike other types of consumer debt, private student loans are protected from discharge during bankruptcy except under extreme circumstances. Thus, an individual who accumulates thousands of dollars in debt for purchases of cars or luxury goods can obtain relief via bankruptcy; however, a teacher with private student loans cannot.

Given these circumstances, we

hope the Treasury and Federal Reserve will construct its student loan plan carefully to mitigate against adverse consequences for private student loan borrowers, especially in light of current economic conditions. Should taxpayer money be used to support private student lenders of non-federal loans, we strongly urge that the Treasury and Federal Reserve require consumer protections similar to those afforded to federal student loans as a condition of receipt of federal rescue funds. Federal student loans have consumer protections; private student loans subsidized by the Treasury-Fed plan should have such protections as well. Further, we recommend instituting steps to assess the underwriting standards of lenders who seek federal relief to determine if the lenders extended credit to particularly vulnerable consumers and whether credit was extended with onerous terms or conditions. Similar to the executive compensation restrictions of the Treasury-Fed plan, these restrictions would help focus federal dollars on stimulating lending while protecting taxpayers and borrowers.

We commend the effort to ensure that students with financial needs can access higher education during this economic crisis. We urge the Treasury and Federal Reserve to proceed cautiously when using taxpayer funds for the student loan industry, ensuring that both financial and consumer protections are considered.   Thank you for your consideration of this request.

Sincerely,

Danny K.
Davis   Yvette D. Clarke

Rubén Hinojosa   Mazie K. Hirono

William Jefferson   Raúl M. Grijalva

Edolphus "Ed" Towns   Fortney
"Pete" Stark

Robert Wexler David Wu

Lynn Woolsey Phil Hare

Dennis Kucinich Linda T.
Sánchez

Joe Courtney Sheila
Jackson Lee

Chaka Fattah Robert
C. "Bobby" Scott

December 4, 2008

The Honorable Henry M. Paulson, Jr.

Secretary

U.S.
Department of the Treasury

1500
Pennsylvania Avenue, NW

Washington,
DC 20220

Dear Secretary Paulson:

As Members of Congress who are active in education policy, we write to respectfully request clarification of the recent Term Asset-Backed Securities Loan Facility program that would allow the Department of Treasury and the Federal Reserve to fund non-federal student loans. We strongly support ensuring that students have the money they need to attend institutions of higher education. However, we must make certain that any such plan aids students and does not simply line the pockets of for-profit lenders.

Most students and families use federal loans to pay for college. Thanks to recent actions by Congress and the Department of Education, federal student loans are currently readily available. However, certain groups of students require private student loans to attend school, such as students who need to borrow more than is available federally, students who attend schools that do not participate in the federal loan program, and international students. The Project on Student Debt estimates that only about 8% of undergraduates used private loans last year. Unlike federal student loans, private student loans typically lack any form of consumer protection (e.g., fixed interest rates, income-contingent and income-based repayment options, or debt discharge in the case of disability or death). For these reasons, lenders and financial aid experts generally agree that students should exhaust federal financial aid prior to using private loans.

We have serious concerns about using taxpayer money to subsidize for-profit lenders of non-federal student loans. A number of higher education groups representing students, consumers, and colleges share our concerns. The Treasury-Fed plan seems to equate credit card, auto, and student loans. However, these debts are not equal. Private student loan lenders enjoy federal protections from bankruptcy that other consumer creditors do not. Specifically, unlike other types of consumer debt, private student loans are protected from discharge during bankruptcy except under extreme circumstances. Thus, an individual who accumulates thousands of dollars in debt for purchases of cars or luxury goods can obtain relief via bankruptcy; however, a teacher with private student loans cannot.

The Honorable Henry M. Paulson, Jr.

December 4, 2008

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Given these circumstances, we hope the Treasury and Federal Reserve will construct its student loan plan carefully to mitigate against adverse consequences for private student loan borrowers, especially in light of current economic conditions. Should taxpayer money be used to support private student lenders of non-federal loans, we strongly urge that the Treasury and Federal Reserve require consumer protections similar to those afforded to federal student loans as a condition of receipt of federal rescue funds. Federal student loans have consumer protections; private student loans subsidized by the Treasury-Fed plan should have such protections as well.
Further, we recommend instituting steps to assess the underwriting standards of lenders who seek federal relief to determine if the lenders extended credit to particularly vulnerable consumers and whether credit was extended with onerous terms or conditions. Similar to the executive compensation restrictions of the Treasury-Fed plan, these restrictions would help focus federal dollars on stimulating lending while protecting taxpayers and borrowers.

We commend the effort to ensure that students with financial needs can access higher education during this economic crisis. We urge the Treasury and Federal Reserve to proceed cautiously when using taxpayer funds for the student loan industry, ensuring that both financial and consumer protections are considered. Thank you for your consideration of this request.

Sincerely,

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C. "Bobby" Scott

December 4, 2008

The Honorable Barney Frank, Chairman

Committee on Financial Services

U.S.
House of Representatives

2129 Rayburn
House Office
Building

Washington,
DC 20515

Dear Chairman Frank:

As Members of Congress who are active in education policy, we write to respectfully request that the Committee on Financial Services hold a hearing to clarify the recent Term Asset-Backed Securities Loan Facility program that would allow the Department of Treasury and the Federal Reserve to fund non-federal student loans. We strongly support ensuring that students have the money they need to attend institutions of higher education. However, we must make certain that any such plan aids students and does not simply line the pockets of for-profit lenders. A hearing specific to Treasury's potential intervention into the student loan industry presents an effective way to examine the necessity of and most appropriate strategies for such an approach. A hearing promises to bring to light important facets of the student loan industry that Treasury and Federal Reserve officials should consider prior to taking action.

In particular, we have serious concerns about using taxpayer money to support for-profit lenders of non-federal student loans. Statements by Treasury officials seem to equate companies that issue credit cards, auto loans, and student loans. However, these debts are not equal. Private student lenders enjoy federal protections from bankruptcy that other consumer creditors do not. Specifically, unlike other types of consumer debt, private, non-federal student loans are protected from discharge during bankruptcy except under extreme circumstances. Unlike federal student loans, private, non-federal student loans typically lack any form of consumer protection (e.g., fixed interest rates, income-contingent and income-based repayments, or debt discharge in the case of disability or death). Thus, an individual who accumulates thousands of dollars in debt for purchases of cars or luxury goods can obtain relief via bankruptcy; however, a teacher with private student loans cannot.

A hearing to review the problems and potential resolutions to the financial difficulties in the student loan market could encourage Treasury and the Federal Reserve officials to proceed very carefully when intervening into the student loan industry, and help guide their efforts. For example, we would hope that a hearing could identify ways that an intervention could mitigate against adverse consequences for private student loan borrowers, especially in light of current economic conditions. Similarly, a hearing would provide an opportunity to discuss options for protecting consumers, such as making consumer protections a condition of receipt of federal rescue funds, and for assessing criteria for lender eligibility for aid. Such criteria might include instituting steps to assess the underwriting standards of lenders who seek federal relief to determine if the lenders extended credit to particularly vulnerable consumers and whether credit was extended with onerous terms or conditions.

The Honorable Barney Frank

December 4, 2008

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We are very grateful to the Committee on Financial Services, and to you as its Chairman, for your tremendous leadership in identifying the central issues underlying and potential avenues for exiting the current economic crisis. Thank you for your consideration of our request to hold a hearing to clarify the intended use of the Term Asset-Backed Securities Loan Facility program by the Department of Treasury and the Federal Reserve to increase the availability of student loans. Please contact Jill Hunter-Williams in the office of Congressman Davis at (202) 225-5006 with any questions.

Sincerely,

Danny K. Davis Yvette D. Clarke

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